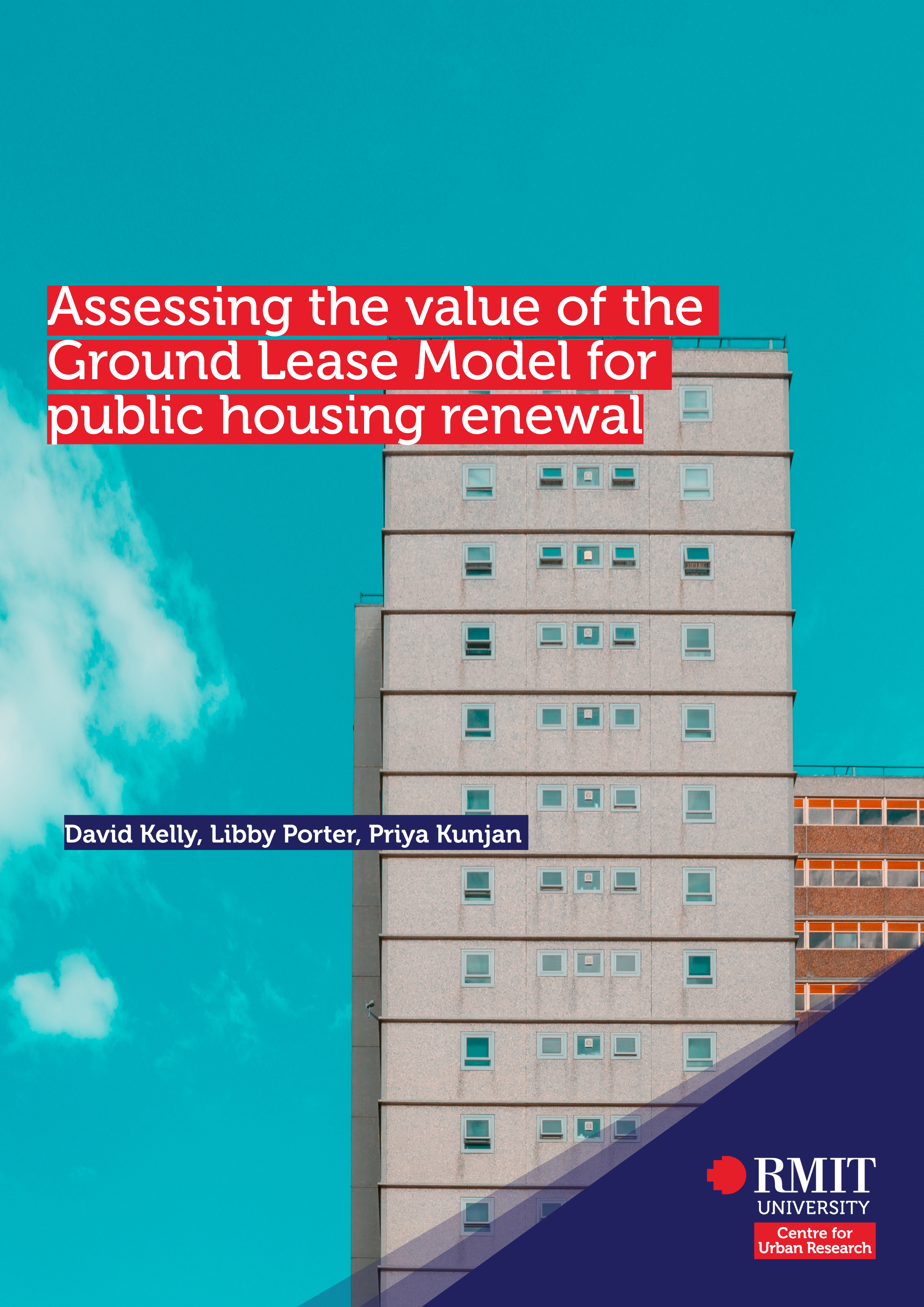

Assessing the value of the Ground Lease Model for public housing renewal

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RMIT UNIVERSITY
Centre for Urban Research

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This report would not have been possible without the valuable input of the Save Barak Beacon group, Dr Liam Davies, Kerrie Byrne, and the team at OFFICE.

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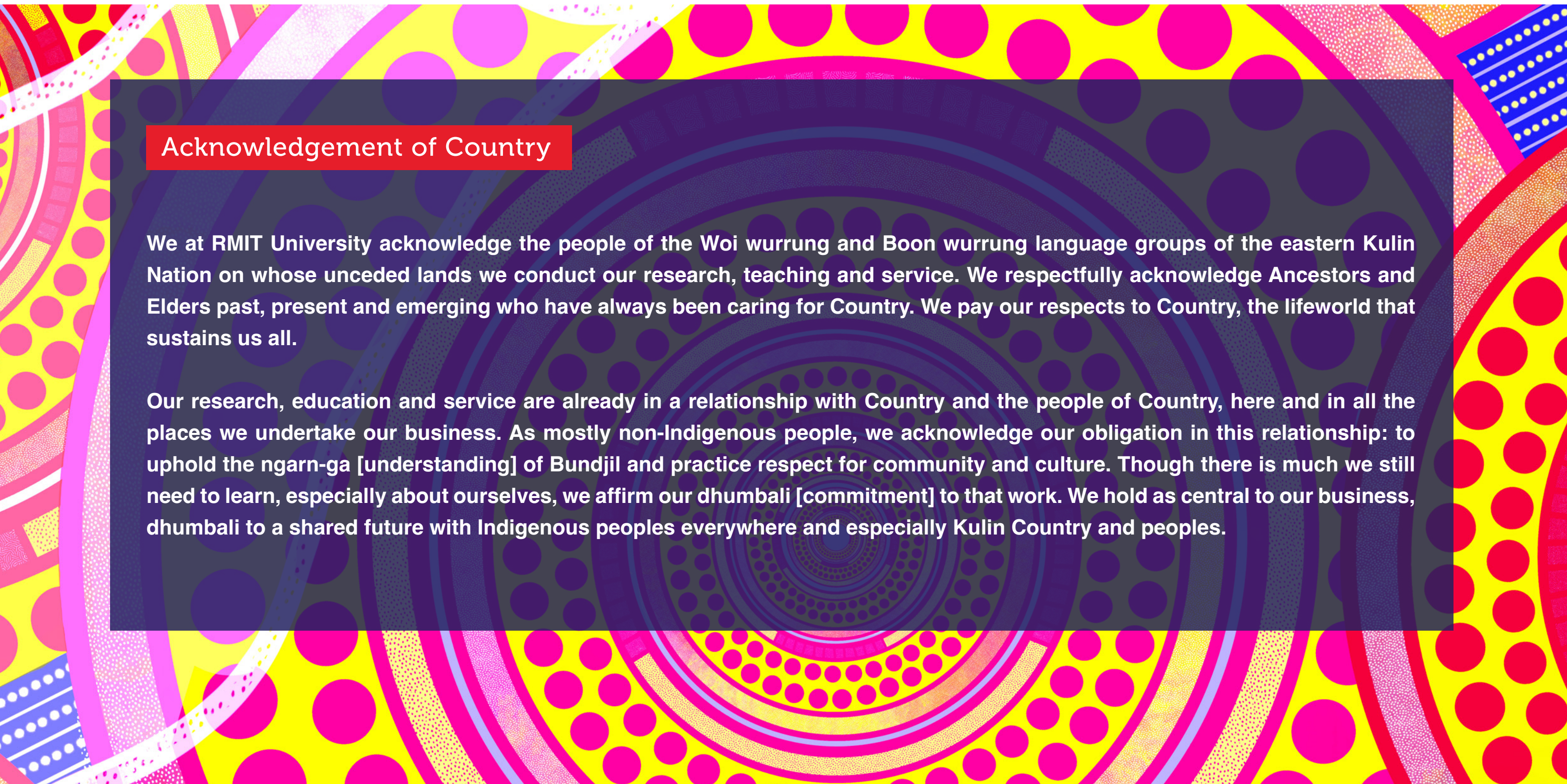

Acknowledgement of Country

We at RMIT University acknowledge the people of the Woi wurrung and Boon wurrung language groups of the eastern Kulin Nation on whose unceded lands we conduct our research, teaching and service. We respectfully acknowledge Ancestors and Elders past, present and emerging who have always been caring for Country. We pay our respects to Country, the lifeworld that sustains us all.

Our research, education and service are already in a relationship with Country and the people of Country, here and in all the places we undertake our business. As mostly non-Indigenous people, we acknowledge our obligation in this relationship: to uphold the ngarn-ga [understanding] of Bundjil and practice respect for community and culture. Though there is much we still need to learn, especially about ourselves, we affirm our dhumbali [commitment] to that work. We hold as central to our business, dhumbali to a shared future with Indigenous peoples everywhere and especially Kulin Country and peoples.

Introduction

Across Victoria there are a number of public housing estates that are in the process of being redeveloped via the Public Housing Renewal Program (PHRP) and the Big Housing Build (BHB). This is the largest program of works in Victoria's history, where existing public housing is being demolished to make way for future residential development with a mix of private and social housing.

The BHB uses a Ground Lease Model (GLM) approach for delivering the new housing, of which there are two projects identified by the Government of Victoria (GLM1 and GLM2) organised across seven public housing estates. This report provides a description and analysis of the Ground Lease Model and provides a background to the current renewal paradigm. The Government of Victoria has stated that the purpose of public housing renewal is to increase the amount of social housing and to replace old or dilapidated stock that has not been sufficiently maintained or repaired by the responsible agency, Homes Victoria.

The aim of this report is to present an analysis of publicly available information about this investment to a general readership to aid greater understanding and public scrutiny. The report has four sections. The first section provides a brief background of the policy context and public housing renewal in Victoria. In the second, we analyse the Ground Lease Model approach used by Government in the current round of renewal, the Big Housing Build. The third section provides a case study of one estate – Barak Beacon in Port Melbourne – to evaluate the cost and impacts of the renewal and GLM approach. Section four provides recommendations based on this analysis.

To develop this report, we have brought together available public information to evaluate the effectiveness of such a significant and costly policy during a period of acute housing crisis. There are two publicly available costings related to the GLM that we use here to discern the approximate cost of the redevelopment:

A project summary of the Ground Lease Model published by Homes Victoria, which tables the cost of 'quarterly service payments' (payments made by Homes Victoria to the Project Consortium to design, construct and maintain the assets) at GLM1 sites;[1] and Budget Paper No.4 of the State Capital Program 2022–23 published by the Treasurer of the State of Victoria, which tables the 'capital investment' across the four GLM2 sites.[2]

We acknowledge the urgent need for government investment in public housing maintenance, refurbishment and building given decades of neglect. The analysis presented here critically challenges the assumption that renewal through demolition is the most effective means of addressing a severe and ongoing housing crisis. The analysis also reveals how major public housing policies and their outcomes, purportedly introduced for public benefit, are frequently re-branded over time with little clear public communication about how they are achieving their stated aims.

The public–private partnership model central to the redevelopment projects discussed in this report relies on the use of a Public Sector Comparator (PSC) analysis to show that such procurements demonstrate value for money.[3] The PSC analysis of GLM 1 claims a cost saving to the public purse over

[1] https://www.dtf.vic.gov.au/sites/default/files/document/Ground%20Lease%20Model%20-%20Project%20Summary_1.pdf

[2] https://s3.ap-southeast-2.amazonaws.com/budgetfiles202223.budget.vic.gov.au/2022-23+State+Budget+-+State+Capital+Program.pdf

[3] https://www.dtf.vic.gov.au/sites/default/files/2018-05/Partnerships-Victoria-Requirements-November-2016.pdf p. 10

the lifetime of the lease.[4] These findings are not borne out by recently published independent research which demonstrates clear cost savings and overall public benefit via the direct provision of public housing.[5] Excluding capital cost of building construction and inflation, recent research also demonstrates that public housing '…rental income, in most years, covers the cost of providing public housing services.'[6] Aside from the construction cost of establishing new estates, public housing communities are cost neutral.

Having prepared this report in the absence of transparency from policy makers about the effectiveness of public spending in relation to housing renewal programs, we strongly urge the Government of Victoria to begin synthesising and publishing this information itself. We welcome the Department of Families, Fairness and Housing and Homes Victoria to correct any errors in our analysis and to demonstrate how the policies discussed below have addressed the housing crisis and represent value for money.

The analysis contained in this report has been developed without specific funding and is the result of the authors' independent research.

Key terms

Social Housing

> Social housing is an umbrella category referring to a range of non-market forms of housing including both public and community housing. There are major regulatory, material and experiential differences between these tenures, a summary can be found here.

Public Housing

> To be considered public housing a dwelling must be both owned and managed (tenancy and maintenance) by the Government of Victoria.

Community Housing

> Community housing refers to dwellings that are managed and/or owned by Community Housing Organisations (CHOs), private not-for-profit organisations who own and/or manage housing that is not public housing.

Affordable Housing

> There is no definition provided in documentation related to the Public Housing Renewal Program, Big Housing Build, or Ground Lease Model about the characteristics of 'affordable' dwellings, including rent charged and what demographic group is being targeted as potential tenants.

Background

The root of the current wave of public housing redevelopment impacting public housing estates in the inner-city suburbs of Melbourne can be found in the Public Housing Renewal Program (PHRP) and its antecedents: the Carlton and Kensington estate redevelopments.

Established in 2017, the PHRP was developed under the *Homes for Victorians* strategy, a broad suite of

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[4] https://www.dtf.vic.gov.au/sites/default/files/document/Ground%20Lease%20Model%20-%20Project%20Summary_1.pdf

[5] https://www.ahuri.edu.au/research/final-reports/306

[6] Davies, L. (2023). *From crisis to crisis: understanding changes to Victorian rental housing policy from the global financial crisis to COVID-19* p.109

initiatives to address housing affordability and supply in Victoria. The PHRP has facilitated the redevelopment of 11 public housing estates in Melbourne as part of the government's aim to 'redevelop up to 2,500 public housing dwellings and increase the number of social housing properties by at least 10 per cent across metropolitan and regional sites.'[7] The renewal process entails the forced relocation of residents, demolition of the existing buildings and redevelopment of each site by a private developer working in partnership with a community housing provider.

The PHRP was underpinned by a 'real estate development model' aiming to increase the supply of social housing units, modernise and improve social housing stock to be 'fit for purpose', and de-concentrate disadvantage on public housing estates by implementing social mix. This model emanated from the Kensington estate renewal model, which was largely replicated at the Carlton public housing estate. Built in the 1960s, the Kensington estate contained three high-rise towers and 18 walk-up buildings on a 6.04 ha site. However, after decades of sustained government neglect, one of the towers was deemed unsuitable for habitation and demolished in 1999. In 2000 a redevelopment project commenced resulting in the demolition of all walk-ups and the refurbishment of the two remaining towers.

The redevelopment model at the Kensington and Carlton estates was implemented via a partnership between the Government of Victoria and the Becton Corporation, a private developer established in Melbourne in 1982. Becton purchased two-thirds of the Kensington estate (4.18 ha) below market rate for the construction of private housing later sold at market rate. This public–private partnership model was the first of its kind in Victoria, with an emphasis on finance mix, housing mix and social mix. Initial home sales were sluggish and as a result Becton sought to change the master plan and later went into administration. A 2013 evaluation[8] of the model found that it resulted in a loss of public housing units and bedrooms; social mix was found to be ineffective in bringing about social interaction between residents of different tenure types; the premise that there was locational disadvantage prior to development was erroneous; private and public tenures were segregated on site; and revenues ultimately flowed to the private developer rather than being retained by the government for reinvestment in public works. The report recommended overall that the 'redevelopment model at Kensington should not be reproduced in the same arrangement on other estates' (p. 13).

Despite the conclusions of the independent evaluation, all subsequent renewal projects in the state of Victoria have followed this redevelopment model, albeit with some policy modifications. The PHRP in particular followed the same principles as Kensington, with an emphasis on financial and housing mix and the use of public–private partnerships to deliver renewal projects. One key difference since the redevelopment of the Kensington and Carlton estates has been the wholesale removal of public housing on renewal sites, instead replacing public housing with community housing. The BHB is by-and-large a continuation of the PHRP, rebranded to align with the state's Big Build policy program of major infrastructural projects including Level Crossing Removals, the Metro Tunnel, and the West Gate Tunnel. The main difference between the PHRP and BHB is the use of the GLM, which involves the in-principal retention of public land.

[7] Homes for Victorians 2017 report p. 33

[8] Kate Shaw, et al., *Evaluation of the Kensington redevelopment and place management models: Final report*, University of Melbourne, Melbourne, 2013. Available at https://office.org.au/api/wp-content/uploads/2022/05/K-Shaw_Kensington_estate_evaluation_Jan_2013.pdf

Each phase of the various renewal programs has attracted significant public[9] and scholarly critique.[10] The Kensington model included the heavily discounted sale of the land from government to a private developer, with the government then buying a number of the completed dwellings at market rate resulting in direct profit generation for the developer. The Carlton model modified this by sharing the renewal profits between the government and the developer. This included a land swap deal for social dwellings, and an effective clawback on behalf of government for a portion of the financial windfall. The PHRP modified this further and capitalised on the emergence of the community housing sector by swapping the role of the developer with a Community Housing Operator (CHO) and redirecting surplus value into the provision and maintenance of future community housing properties. All the aforementioned models resulted in a transfer of land title from public to private ownership. Indeed, the GLM evolved in response to two distinct critiques related to the privatisation process baked into the PHRP: public critique about the loss of public land, and the perception that land developers are the primary financial beneficiaries of renewal programs.

Various phases of public housing renewal have also attracted critique for their lengthy timeframes. Public housing communities such as at Abbotsford Street in North Melbourne and Walker Street in Northcote have been displaced since 2018, with buildings fully demolished around 2021. Households that were relocated from these sites were re-tenanted in privately owned properties head-leased by the government for an initial period of five years. Redevelopment at these sites is not complete, with construction yet to commence at Walker St despite some residents having been relocated more than five years ago.

Ground Lease Model Approach

The first iteration of the Ground Lease Model, identified by the Victorian Government as Ground Lease Model Project 1, was applied at three public housing sites at New Street (Brighton), Victoria Street (Flemington), and Bangs Street (Prahran). All were PHRP sites that were rebranded as Big Housing Build sites in 2020. At the time of writing, all these sites are currently under construction. The second iteration of the GLM (GLM2), which Government identifies as Ground Lease Model Project 2, applies to four sites: Horace Petty (South Yarra), Essex Street (Prahran), Bluff Road (Hampton East), and Barak Beacon (Port Melbourne). All are currently under demolition, yet none have established plans or contractors in place for the rebuild. As far as can be discerned through publicly available material, there are no major policy differences between GLM1 and GLM2. In the absence of public information to the contrary, we have assumed they operate on the same principles and assumptions.

The Ground Lease Model works by leasing the land to a third party, for a 40-year period, during which time the redevelopment occurs, and a mix of private and community housing dwellings are built. In the case of GLM1 this third party is Building Communities (Vic) Limited, setup as a Special Purpose Vehicle (SPV) in 2021 by a Community Housing Organisation called Community Housing (Vic) Ltd.[11] Building Communities (Vic) Limited designs, builds and manages the entire site including the community housing

[9] https://new.parliament.vic.gov.au/4a4b84/contentassets/c0fced4491df40e5a8e95c27aa7350c3/lsic_58-11_phrp_text_web.pdf
[10] https://cur.org.au/cms/wp-content/uploads/2019/05/understanding-the-assumptions-and-impacts-of-the-phrp-final-report-28-5-19.pdf
[11] https://www.vic.gov.au/housing-registrar-sector-performance-report-2020-21/registration-new-providers#

tenancies. After the lease period expires, the land and buildings return to government ownership, in 'as new' condition. Assuming a 40-year lease period in the Ground Lease Model it is plausible to extrapolate that if the new buildings developed, particularly the social housing dwellings, are not supported with sufficient investment in maintenance and upkeep, similar processes of decay and dereliction are likely to unfold. In the absence of public information to the contrary, it should be presumed there is an option for government to renew the lease with the prospect that these sites might effectively operate under a perpetual GLM.

The Government of Victoria has committed $260m in capital funding to the Ground Lease Model Project 2.[12] This figure excludes the quarterly service payments, which are not available yet as this project has not yet been contracted. For GLM1 these payments amounted to $638m, or a total of $212m per site. In the absence of a GLM2 figure we have assumed the same quarterly service payments as GLM1, noting that these are likely to be higher as there are more sites and all costs between GLM1 and GLM2 have risen. The costs counted in the State Budget papers do not include all the costs incurred in the relocation of existing tenants, the demolition of the buildings, or health and wellbeing costs of displacing tenants and fragmenting communities.

Table 1 Details of the two current ground lease model projects

	Ground Lease Model 1	Ground Lease Model 2
Number of target public housing estates	3	4
Existing public housing dwellings	446[13]	502
Social dwellings proposed	619	650
Total social dwelling uplift	173	148
Quarterly service payments	$638,000,000	$ 848,000,000
Capital investment	$263,667,000	$ 260,000,000
Total expenditure	$901,667,000	$ 1.108b
Cost per additional social dwelling	$5.21m	$ 7.5m

Where the GLM deviates from prior renewal programs is in the retention of public land and profit (or operating surplus) sharing model. As the GLM does not involve the sale of public land, the Government is able to frame the policy as progressive and avoiding privatisation. However, it is accurate to classify the social dwellings that will be built under the GLM as community rather than public housing, given

[12] https://s3.ap-southeast-2.amazonaws.com/budgetfiles202223.budget.vic.gov.au/2022-23+State+Budget+-+State+Capital+Program.pdf, p.130
[13] https://www.homes.vic.gov.au/sites/default/files/documents/202107/prahran-housing-precinct%20development-plan-july-2016.pdf

that tenancies are managed by the CHO for the duration of the ground lease.

The GLM also sidesteps critique about the distribution of profits. This model does not include the sale of any dwellings given its 'build-to-rent' approach,[14] removing the need for the private developer to act as a sales agent (as was the case at previous sites). Instead, the Special Purpose Vehicle collects revenue under the model in four ways: from rent and rent assistance payments of social tenants via the CHO; from rent collected from private tenants; by access to Commonwealth funding schemes such as the National Housing Finance and Investment Corporation; and through availability contract payments paid by the Government of Victoria every financial quarter for 40 years. Theoretically, the site could be run with a consistent operating surplus that is then reinvested to provide more supply, although there is no publicly stated guarantee that this will occur. At the end of the 40-year ground lease, either the SPV will hand the site back to the government with properties in 'as new' condition, or the lease may be renegotiated.

The estates being redeveloped under the GLM pertain to component 4 of the Big Housing Build, which in the announcement of that program was framed as 'Private and Social Housing Built on Public Land'[15]. In that original announcement and in subsequent announcements of specific projects, the Government of Victoria has described sites slated for redevelopment as 'vacant public land'. However, the land in question is not vacant. Instead, these are places that have until recently been home to communities inhabiting public housing up to their displacement and demolition of their dwellings. The descriptor 'vacant public land' is therefore not only incorrect but obscures the fact that people are being removed from their homes and local communities, often multiple times and across several years, to facilitate the renewal process.

The four estates being redeveloped under GLM2 are in the order of 40 years old. From their construction through to their demolition by government, the Director of Housing has held responsibility for building maintenance and investment. That the buildings were declared as 'not fit for purpose' and 'requiring renewal' after 40 years of government management is evidence of a sustained and known lack of investment and appropriate maintenance by successive Victorian Governments, compounding natural wear over time. This neglect can be understood as an abrogation of the responsibility of the Director of Housing and more broadly the Government of Victoria as the public landlord.

[14] https://www.homes.vic.gov.au/ground-lease-model

[15] Original source no longer available, our earlier analysis records the link: https://cur.org.au/cms/wp-content/uploads/2020/11/big-housing-build-report-final.pdf

Table 2   Redevelopment of estates under Ground Lease Model Project 2

	Horace Petty (low-rise), South Yarra	Essex Street, Prahran	Bluff Road, Hampton East	Barak Beacon, Port Melbourne	Total[16]
Existing or previous no. of dwellings	204[17]	63[18]	146[19]	89[20]	502
Total social dwellings promised	225	70	161	98	650 (promised) 554 (scheduled)
Private dwellings promised	Unable to be determined from publicly available information	130	189	126 market 126 affordable	1400
Uplift social housing	21	7	15	9	148
Uplift % social housing	10%	10%	10%	10%	10%

The figures in Table 2 are drawn from government announcements about redevelopment plans for each site. These provide a broad statement about a planned 'minimum uplift of 10% social housing'. This is the assumption in the figures used for calculating the proposed social housing numbers for each site as shown above. Those figures do not add up to 650 dwellings, which is the amount of new social dwellings announced by Government. Given the lack of clear information, we have used the total figure of 650 dwellings, and the uplift figure of 148 based on this, for our calculations throughout this report.

Originally, there were a total of 502 dwellings on the four estates to be redeveloped under GLM2. All of these homes were public housing. Government figures state that a total of 650 out of 1,400 dwellings built on the site will be social housing.[21] These will operate as community housing homes, with the responsible CHO unannounced at the time of writing due to an ongoing tendering process. While there will be a net gain of 148 social housing dwellings, 502 public homes will be lost under the model. The total financial commitment for GLM2 is derived by calculating the quarterly service payments for each site ($212m x 4) and the capital expenditure ($260m). This brings the total cost of redevelopment (capital expenditure plus quarterly service payments) to $277m for each site. By dividing the total public

[16] https://www.dtf.vic.gov.au/partnerships-victoria-ppp-projects/homes-victoria-ground-lease-model-project-2
[17] Horace Petty, South Yarra & Essex Street, Prahran Stage One Community Engagement Report https://engage.vic.gov.au/project/prahran-south-yarra-housing/page/stage-1-community-engagement-report
[18] Horace Petty, South Yarra & Essex Street, Prahran Stage One Community Engagement Report https://engage.vic.gov.au/prahran-south-yarra-housing
[19] https://engage.vic.gov.au/project/hampton-east-housing/page/stage-1-community-engagement-report
[20] https://engage.vic.gov.au/project/port-melbourne-housing/page/stage-1-community-engagement-report-page
[21] https://www.dtf.vic.gov.au/partnerships-victoria-ppp-projects/homes-victoria-ground-lease-model-project-2

financial commitment for all GLM2 sites ($1,108,000,000) by the number of additional new homes (148), we calculate that the cost to deliver the new additional social homes is on average approximately $7.5m per dwelling.

Barak Beacon

In November 2022, OFFICE, a not-for-profit multidisciplinary design and research practice based in Melbourne, produced a viable peer-reviewed alternative to the redevelopment model currently underway at the Barak Beacon Estate.[22] The feasibility study *Retain, Repair, Reinvest* demonstrated large financial savings across all three areas of investment (see Table 3). OFFICE's report emphasised the ability of this alternative approach to meet all stated objectives of the redevelopment model with both a reduced cost to government and without the need for the destruction of the estate's community.

Table 1   Comparison between GLM2 model and RRR proposal for Barak Beacon. Source: OFFICE

	Ground Lease Model Barak Beacon Estate	Retain, Repair, Reinvest Barak Beacon Estate
Retain		
Increasing existing social housing	+10% (9) dwellings 98 in total	+25% (+23) dwellings 112 in total
Increasing new homes	+252 dwellings 350 in total	+238 dwellings 350 in total
External relocation costs	-$16.193 million	$0
Health and well-being costs	-$238,656	$0
Education costs	-$674,800	$0
Repair		
Direct refurbishment costs	NA	-$19,654,000 (-$175,482 per dwelling)
Direct new dwelling construction costs	-$105,006,150	-$78,243,000
Embodied energy	-	54% reduction
Global warming potential	-	46% reduction
Land use	-	273% reduction
Reinvest		
Estate construction cost savings	-	+$7,109,150
Estate project cost savings	-	+$24,215,606

As of September 2023, the Barak Beacon Estate has been demolished and no developer or CHO contracts have yet been established. There is no publicly reported binding agreement that holds the Government of Victoria to the current redevelopment plan. For sites that have not yet been demolished, a full renovation using the *Retain, Repair, Reinvest* model should be implemented. For estates such as Barak Beacon where a cleared and vacant publicly owned site is available, a full cost-benefit-analysis

[22] https://office.org.au/project/retain-repair-reinvest-barak-beacon-estate/

should be performed that explicitly considers a public housing rebuild.

The current redevelopment plan proposes a total build of 350 dwellings. All dwellings will be managed by a CHO, with tenure type split across 98 social rentals, 126 affordable rentals, and 126 market-rate private rentals. Using the two sources cited in the Introduction, we estimate the total public cost to redevelop Barak Beacon will be approximately $277m. This is not counting the sunk cost of relocation, which can be calculated at a daily rate of $150 per dwelling, a managerial fee of 1.5% of the construction cost, and health, wellbeing and education costs highlighted in Table 3. With an uplift of only nine social dwellings on the site, that is a cost of around $30.75m for every additional social housing dwelling added to the Barak Beacon site under the government's plan. Using a reasonable cost measure to assume a cost of $300,000 to deliver one public housing dwelling,[23] an uplift of nine public dwellings on public land should only cost approximately $2.7m, around $274m less than the cost estimated under the GLM2 model.

Taking into consideration the capital and resources already spent on the proposed redevelopment at Barak Beacon, and in the interests of value for money, a full execution of the *Retain, Repair, Reinvest* alternative with 350 dwellings on the site (100% public housing) would cost around $105m, a savings of $172m. This remains constant even with the cost of maintenance factored in, given that the public housing portfolio runs at a consistent (though small) surplus.

If the full public investment to redevelop Barack Beacon ($277m) were deployed to maximise the potential yield of housing on the now vacant site, no less than 922 public housing dwellings could be constructed within already-earmarked redevelopment costs. Table 4, below, highlights three potential scenarios and associated metrics, suggesting varying measures of value for money:

Ground Lease Model: the proposed redevelopment plan and costings offered by government.

Public housing only: the proposed masterplan, with all dwellings held in public tenure.

Maximum yield of public housing: the current budget, maximizing the number of dwellings that can be built and held in public tenure.

[23] https://cur.org.au/cms/wp-content/uploads/2020/11/big-housing-build-report-final.pdf

Table 4   Comparison of three public housing development scenarios

	Ground Lease Model 2	Public housing only, using current masterplan	Maximum yield of public housing, with current budget
Total dwellings	350	350	922
Social dwellings	98	350	922
Social dwelling uplift	9	261	833
Cost per additional social dwelling	$30,750,000	$300,000	$300,000
Quarterly service payments	$212,000,000	$0	$0
Capital investment	$65,000,000	$105,000,000	$277,000,000
Total expenditure	$277,000,000	$105,000,000	$277,000,000

Recommendations

The most cost-effective way to increase the supply of housing for people on low and very low incomes is to build public housing on public land at the greatest yields possible.[24] No other model stands to address the housing crisis in as urgent or appreciable manner as required. Further, and as demonstrated by the *Retain, Repair, Reinvest* study, viable alternatives exist to the current approach of estate renewal via demolition and redevelopment through public–private partnerships.

State governments have a mandated responsibility for the direct provision of housing in Australia. At a time of intense housing crisis, it is completely appropriate for government to plan, construct and maintain public housing, without non-government partners. Indeed, models of public–private partnership have been abandoned as unfit and inappropriate public policy in the UK.[25] This is the most effective method for the direct and expedited supply of housing for people in housing need and represents the best value for money.

Based on our analysis, and the findings of international studies and models, we recommend:

1. Existing public housing stock is provided with sustained and appropriate investment in maintenance and routine upgrade;
2. Feasibility studies for retention, repair and reinvestment are undertaken for all existing estates targeted for renewal;
3. A ban on public–private partnerships for social housing projects.

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[24] https://www.ahuri.edu.au/research/final-reports/306
[25] https://commonslibrary.parliament.uk/goodbye-pfi/

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